

Chapter 1

Introduction

1.1 Background and significant of the study

Since the reform and opening of People's Republic of China in 1978, China's economy has developed dramatically. According to the report of China statistics Bureau, China's GDP has reached 34,050,687 million Yuan in 2009. In 2010, China's total GDP exceed that of Japan's and become the second biggest one in the world. China's rapid economic growth has attracted many scholars' and economists' attentions in the whole world. In 2011 China's GDP got 47,156,400 million Yuan.

Figure 1.1 shows the GDP growth rates of China's over the period of 1998 to 2011. Since 2003, China's GDP growth rate exceeded 10% and jump to peak at 14.2% in 2007. Then due to the financial crisis, China's GDP growth rate down 9.6% in 2008. The figure shows that China has achieved a sustainable economic growth from 1998 to 2011.

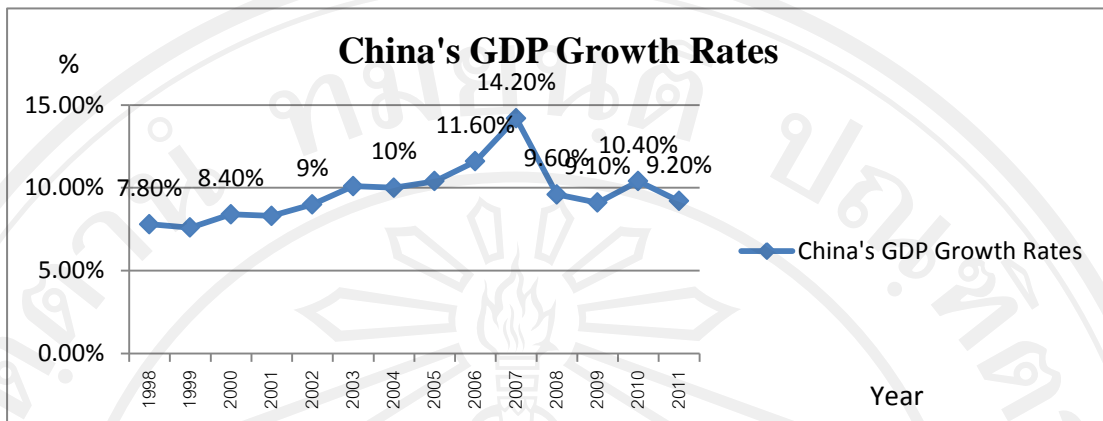


Figure 1.1 China's economic growth rates, 1998-2011

Source: Statistics Bureau of China

Similarly, the data from China Statistics Bureau also shows that the average index of exchange rates has increased over the same period.

Figure 1.2 shows the movements of China's exchange rates since 1998. Based on data collected by the Statistics Bureau of China, the exchange rate has increased from 8.27 Yuan per USD in 1998 to 6.80 Yuan per USD in 2010. In 2011, the exchange rate of CNY is 6.58 Yuan per USD and the exchange growth rate is almost 9.2%.

Figure 1.2 also shows that, from 1998 to 2005, the exchange rates of China's are steady. From 2006, the index grows rapidly and in the next 5 years, the exchange rates growth from 8.19 Yuan per USD to 6.58 Yuan per USD, the growth rate increase more than 17%.

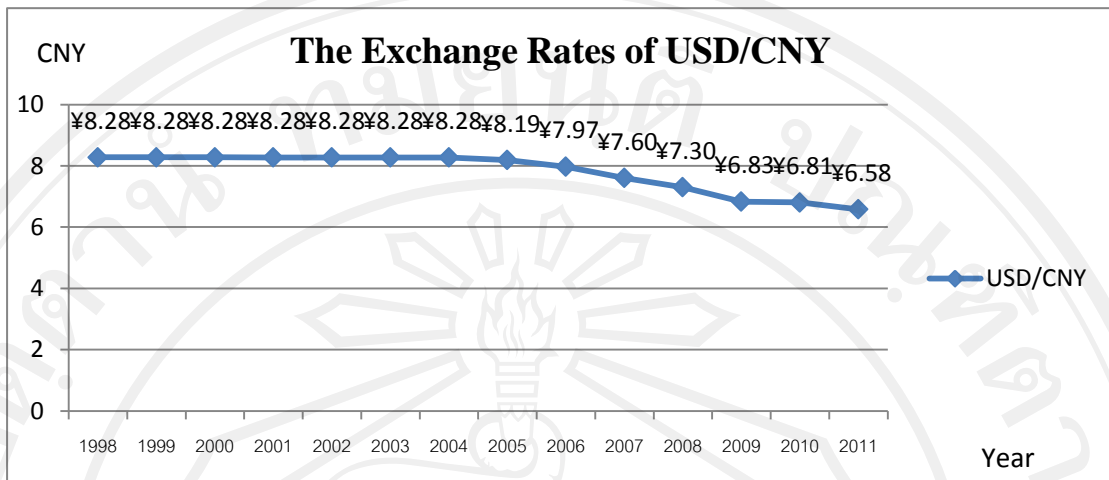


Figure 1.2 Average exchange rates of USD/CNY, 1998-2011

Source: Statistics Bureau of China

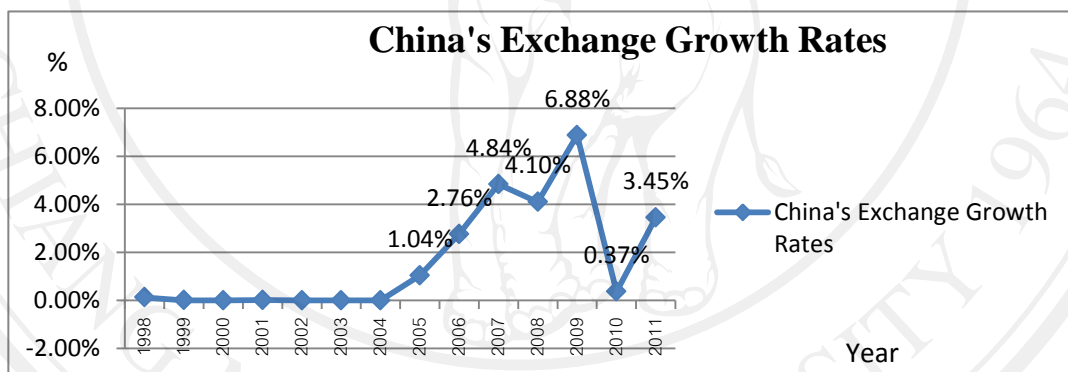


Figure 1.3 China's exchange growth rates, 1998-2011

Source: Statistics Bureau of China

As show in Figure 1.1, 1.2 and 1.3, there is evidence that the economic growth rates and exchange growth rates increased, more or less, from 1998 to 2011.

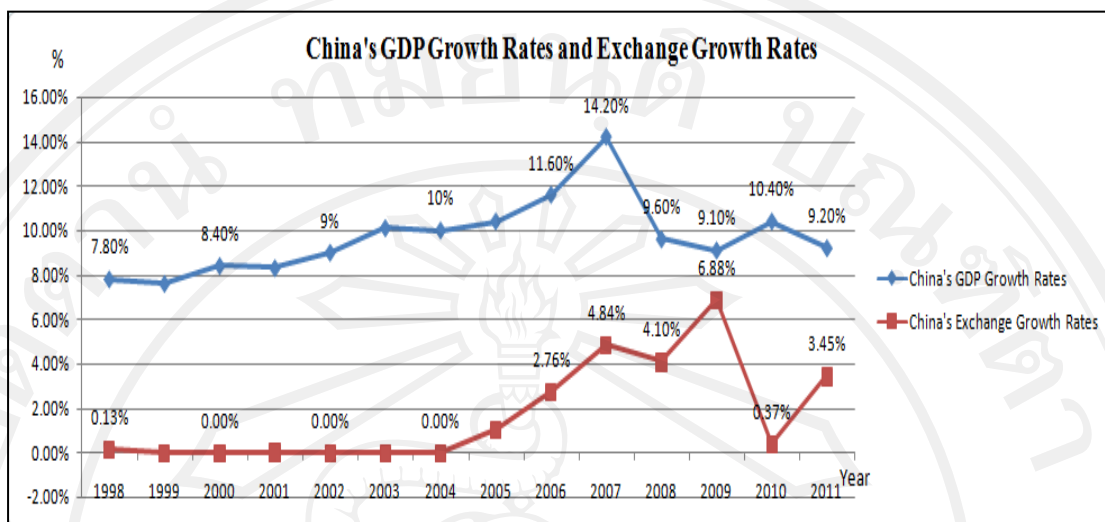


Figure 1.4 Combination figure, 1998-2011

Source: Statistics Bureau of China

Figure 1.4 shows that, China's GDP growth rates and exchange growth rates have the similar trend. Notice that in 2009, when GDP growth rate slow down to the bottom which is 9.1%, the exchange growth rate jump to the new peak which is 6.88%.

Figure 1.5 shows the exchange rates situation of Thailand's from 1998 to 2011.

Data collected by the FED. This figure shows that the lowest value level of THB exchange rate is 44 THB per USD in 2001, after that the exchange rates increased. The highest value level of THB is 29.9 THB per USD in 2007.

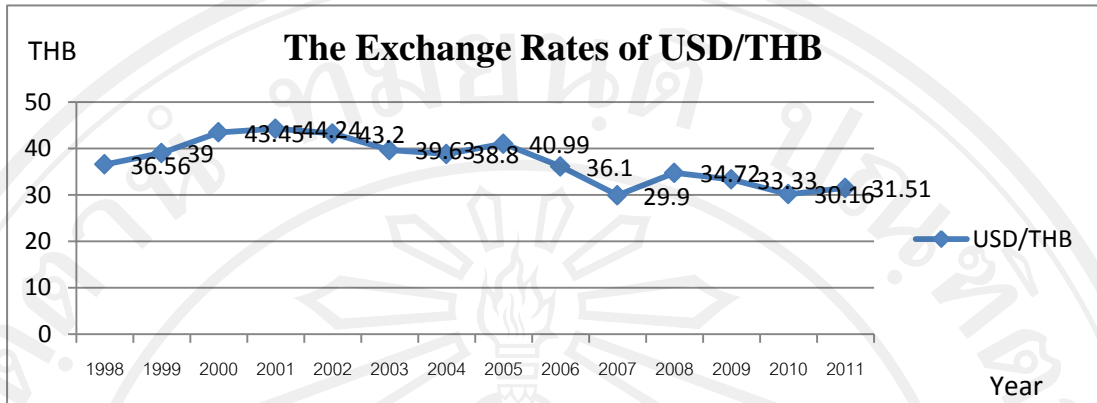


Figure 1.5 Average exchange rates of USD/THB, 1998-2011

Source: The Federal Reserve of USA

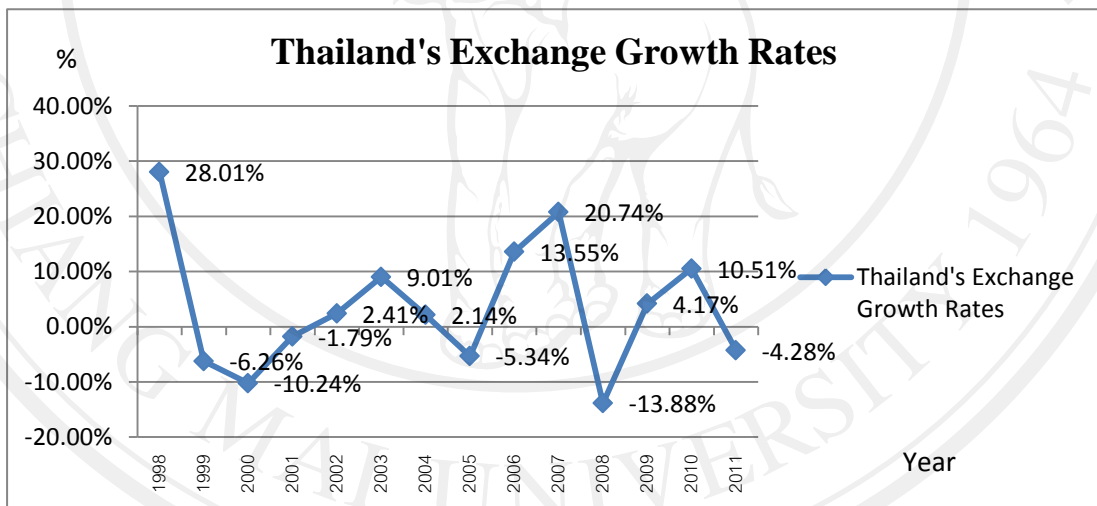


Figure 1.6 Thailand's exchange growth rates, 1998-2011

Source: The Federal Reserve of USA

Figure 1.6 shows the exchange growth rates of Thailand's. Notice that the growth rate in 1998 is based on the data in 1997. This study also get that, in 2007 the

Thailand's exchange growth rate gets the peak which is 20.74% in the period from 1998 to 2011.

From the above mentioned issues, this study will examine the appropriate forecasting model for each country's exchange rates and analysis the dependence measures between China's and Thailand's exchange rate.

People's Republic of China's exchange rate policy history tables as follows:

Table 1.1 China's exchange rate policies history

Period	Exchange Rate Policy Target	Foreign Trade Regime	Characteristics of the RMB Exchange Rate	
Pre-reform period (before 1978)	1949-1952	Encourage export	Predominantly	-Change frequently
	1953-1972	Long term stability	State-owned specialized foreign-trade corporations	-Pegged to USD
				-Undervalued mostly
	1973-1978	Keep RMB strong	State-owned specialized foreign-trade corporations	-RMB pegging to a basket of currencies
-overvalued mostly				
Reform Period(1978-1994)	1979-1984		Responsibility system of operation on contracting base in foreign trade sector	-RMB pegging to a basket of currencies
	1985-1993	Encourage exports and limit imports	Encourage FDI and domestic exporting firm competition	-Main focused to the rate of earning exchange in terms of exports of products

Source: Fengming Qin, "The Evolution of Renminbi Exchange Rate Regime and Its Policy

Implications," School of Economics, Shandong University

Table 1.1 China's exchange rate policies history (Continue)

Period	Exchange Rate Policy Target	Foreign Trade Regime	Characteristics of the RMB Exchange Rate	
Reform Period (1995-2011)	1994-2004	Keep stability of exchange rate and serve to economic growth	Free competition	-Single convention pegged exchange rate regime
				-Stable and appreciated steadily
	2005-2010	Improve the mechanism of exchange rate base on market supply and demand		-Managed float exchange rate regime
		-Appreciated substantively		
Beyond	Increase flexibility of exchange rate system	From managed float exchange rate regime to more flexibility of exchange rate regime		
Reform Period (2012)	2012.04	A managed floating exchange rate based on market demand and supply		The float extends between USD and CNY increase from five over one thousand to one percent.
	2012.06			The exchange between CNY and JPY will be directly

Source: Fengming Qin, "The Evolution of Renminbi Exchange Rate Regime and Its Policy

Implications," School of Economics, Shandong University

Thailand's exchange rate policy as follows:

Since July 1997, Thailand has adopted the managed-float exchange rate regime, which is also consistent with the inflation targeting regime that has been in place since 2000. Under the inflation targeting framework and the managed-float, the value of the baht is allowed to be determined by market forces, reflecting demand and supply for the baht in the foreign exchange market.

Under the managed float, the Bank of Thailand (1) does not target a fixed level for the exchange rate, (2) stands ready to intervene in the case of excess volatility, particularly resulting from speculative capital flows, in a manner consistent with the Bank's inflation targeting framework.

The increase international trade trend between People's Republic of China and Thailand and the famous of foreign exchange market have been associated with the implementation of various policies by Chinese government and Thailand's government, while the purpose of those policies is to confine and intensify exchange rates and its related foreign exchange market developments. Therefore, analysis the forecasting models of each country's exchange rates and study the relationship between these two countries' exchange rates has the very vital practical meaning.

And, foreign exchange as a tool for international settlement will help us to find each country's important financial opportunities.

1.2 Purposes of the study

This paper investigates the appropriate forecasting models and the relationship between People's Republic of China's exchange rates and Thailand's exchange rates.

First, in order to through the past data to calculate the future data and understand each country's exchange rates mechanism, in this study will find the appropriate forecasting models for People's Republic of China's exchange rates and Thailand's exchange rates. Second, this study will analyze the dependence measures between these two countries' exchange rates which will help government modify policies and guide investors understand the relationship between exchanges.

1.3 Organization of the study

This thesis has five chapters. The first chapter provides the introduction and purpose of the study. Chapter 2 presents the related theories and literature reviews and highlights the contributions of this study. Chapter 3 introduces the econometric methodology. The data and empirical results are presented in chapter 4. Chapter 5 concludes the paper and provides some suggestions for government from monetary policy and fiscal policy.